

Message Text

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ACTION ABF-01

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FM AMEMBASSY SANTIAGO
TO SECSTATE WASHDC 4532

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E.O.11652:N/A

TAGS: EFIN, AFIN, AFSP, CI

SUBJ: DEVLUATION OF EXCHANGE RATE

REF: A. SANTIAGO 5506

B. SANTIAGO 3191, JUNE 5, 1974

1. EFFECTIVE AUGUST 26 THE CENTRAL BANK DEVALUED THE BANKERS RATE FROM E0.5,800 TO E0.6,000 PER DOLLAR. DEVALUATION OF 3.4 PERCENT MAKES THE BANKERS RATE NOMINALLY IDENTICAL TO THAT OF THE BROKERS RATE WHICH REMAINS UNCHANGED.

2. ACCORDING TO PRESS NOMINAL RATES WILL NOW BE KEPT IDENTICAL, THOUGH FOR TIME BEING DISTINCTION WILL BE MAINTAINED OF BANKERS AND BROKERS MARKETS. BANKERS RATE IS USED FOR FOREIGN TRADE TRANSACTIONS AND BROKERS RATE IS USED PRIMARILY FOR TOURISTS AND TRAVEL TO AND FROM CHILE, REMITTANCES TO THOSE ON SCHOLARSHIPS ABROAD, AND PURCHASES OF NATIONAL CURRENCY BY DIPLOMATS.

3. BECAUSE OF 120- DAY DELAY BETWEEN PAYMENT FOR AND CENTRAL BANK DELIVERY OF FOREIGN EXCHANGE TO IMPORTERS, BANKERS RATE IS EFFECTIVELY DEVALUED MARGINALLY BELOW THAT OF BROKERS RATE. THE UNIFICATION OF THE EFFECTIVE RATES, TAKING THIS FACTOR INTO ACCOUNT, WAS ANNOUNCED AS HAVING TAKEN PLACE ON JUNE 5, 1974 (REF B) AND PRESUMABLY WAS MAINTAINED UNTIL JULY 25, 1975 WHEN THE CENTRAL BANK MADE THE FIRST OF THREE DEVALUATIONS OF THE BANKERS RATE WHILE LEAVING THE BROKERS RATE UNCHANGED.

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4. COMMENT: A CENTRAL BANK SOURCE INFORMS THAT A RECENT REGULATION PEMITTING GENERAL PUBLIC TO EXCHANGE DOLLARS FOR ESCUDOS ON NO QUESTIONS ASKED BASIS HAS RAISED INFLOW OF FOREIGN EXCHANGE IN THE BROKERS MARKET TO ABOUT \$10 MILLION PER MONTH. THE LEVEL OF INFLOW HAS LED CENTRAL BANK AUTHORITIES TO BELIEVE THAT BROKERS RATE UNDervalued AND THAT RATE WOULD RISE (I.E., FEWER ESCUDOS PER DOLLAR) IF ALLOWED TO SEEK MARKET LEVELS. ALLOWING BANKERS RATE TO DEVALUE PERMITS CENTRAL BANK TO CONTINUE POLICY OF ADJUSTING EXCHANGE RATE TO OFFSET DOMESTIC INFLATION. AT THE SAME TIME, SOURCE CLAIMS HOLDING BROKERS RATE CONSTANT PERMITS CENTRAL BANK TO LESSEN INFLATIONARY IMPACT OF ITS FOREIGN EXCHANGE PURCHASE.

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